



House Commerce and Gaming

Washington State Liquor and Cannabis Board

November 16, 2018



Washington State Liquor and Cannabis Board

Staffing

- Commissioned FTEs
 - Retail Enforcement
 - 4 Regions
 - 82 Alcohol and Retail Cannabis
 - Tobacco Enforcement
 - 14 Tax
 - 6 Vapor
 - Non-Retail
 - 7 Mfr., Import., Whlse.
 - 23 Marijuana Producer/Processor
 - Special Investigations 5
 - Regional Task Force 1
- 30 Non-commissioned FTEs





Resource Allocations

Cannabis Initial Assumptions

- 100 producers
- 100 processors
- Approximately 350 retailers
- Large scale Producers
- Retail stores are similar to convenience stores





Licensing

Requirements

- Criminal history investigation
 - All parties, including spouses
 - FBI background checks
- Financial background investigation
 - Identifies source of funds
- Six-month residency requirement
 - Entity must be formed in Washington State
 - Demonstrate at time of application
- Property must be more than 1,000' from: schools, child care centers, transit centers, game arcades, libraries, playgrounds, public parks.



Traceability System

- A robust and comprehensive software system that traces product from start to sale. Licensees must report significant milestones and changes to the LCB's traceability system which allows the LCB to monitor and track any plant or product at any time.



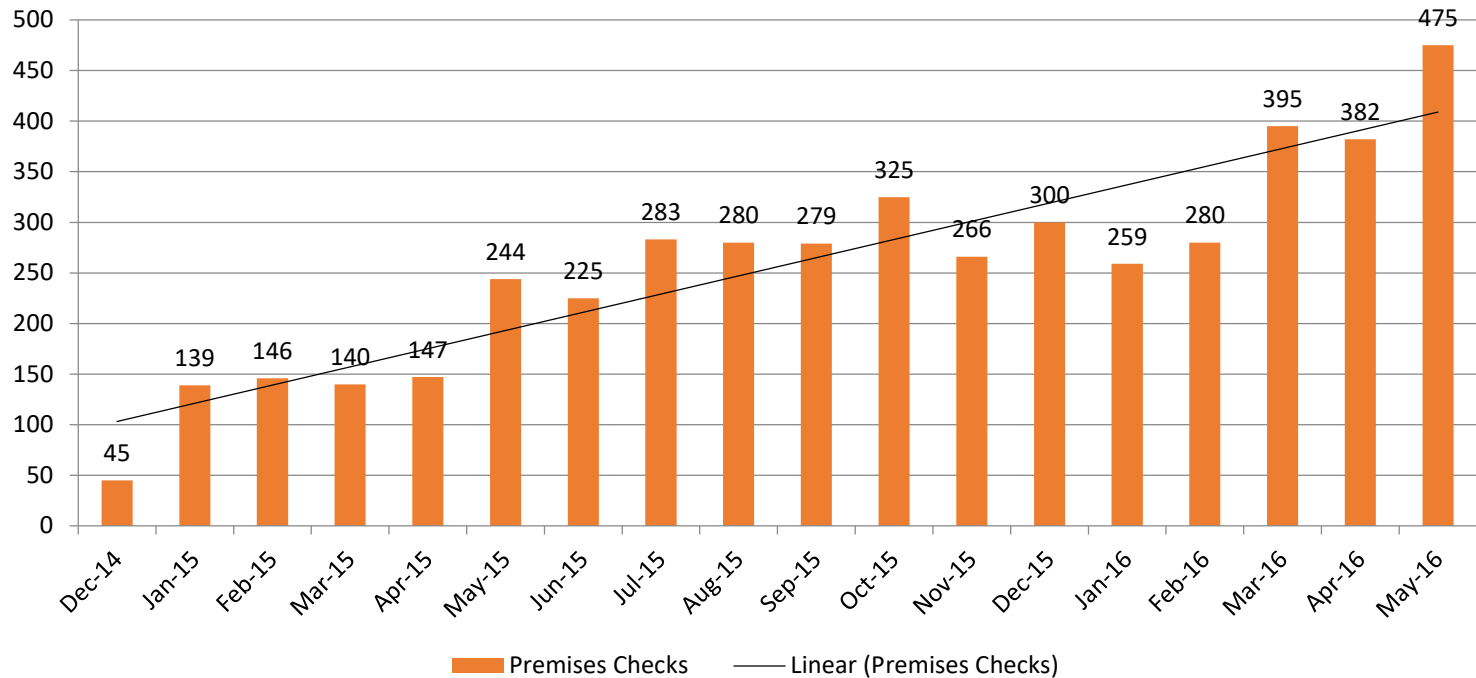
Investigations

- Advertising
- Diversion
- Hidden Ownership
- Integration
- Over service
- Pesticide
- Tax compliance
- Trade Practices
- Youth Access



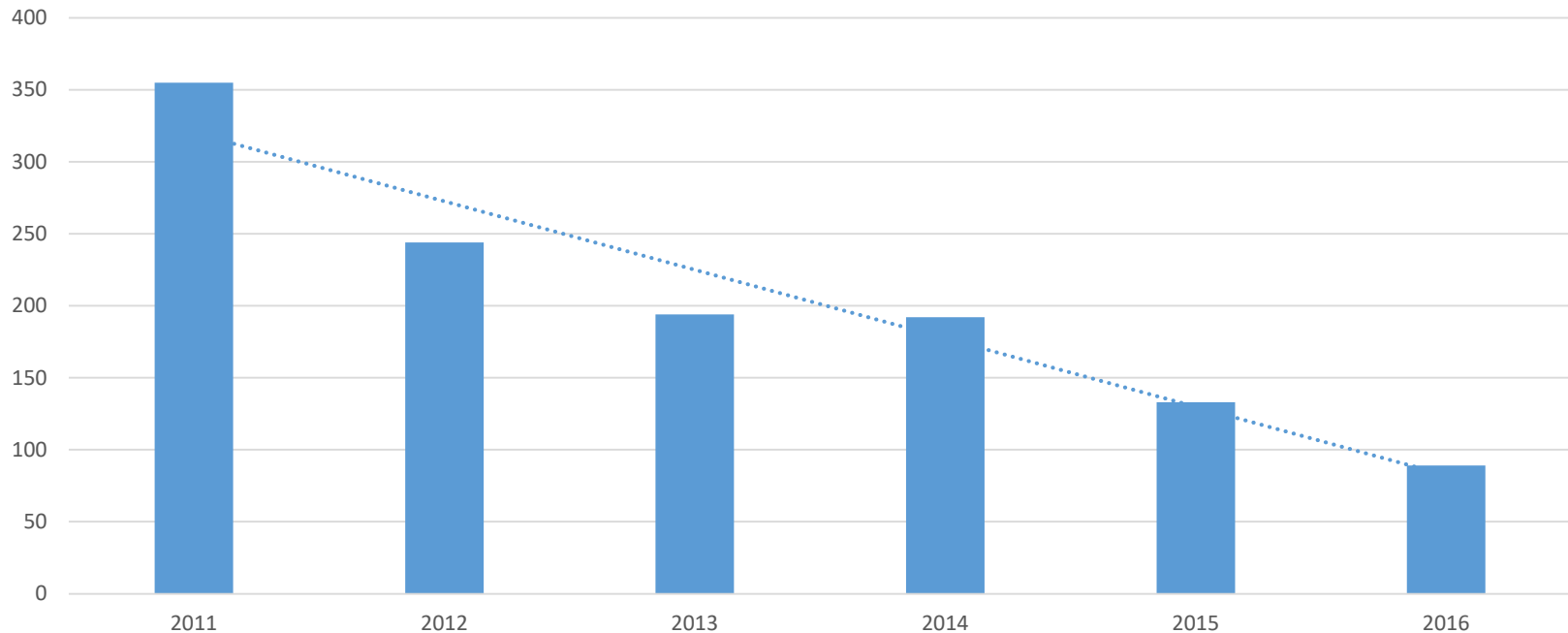


Marijuana Premises Checks





Overservice: Undercover Operations Post I-502





Top Enforcement Complaints

Alcohol

1	Sale or Service to Apparently Intoxicated Person	447
2	Conduct Violations: (Criminal or Disorderly / Licensee or Employee Drinking / Intoxicated on Premises)	429
3	NSF check: Payment by a Retail Licensee for Alcohol Purchases	240
4	Violations Involving Minors: (Sale or Service of Alcohol to a Minor / Minor Frequenting)	182
5	Miscellaneous Violation	126

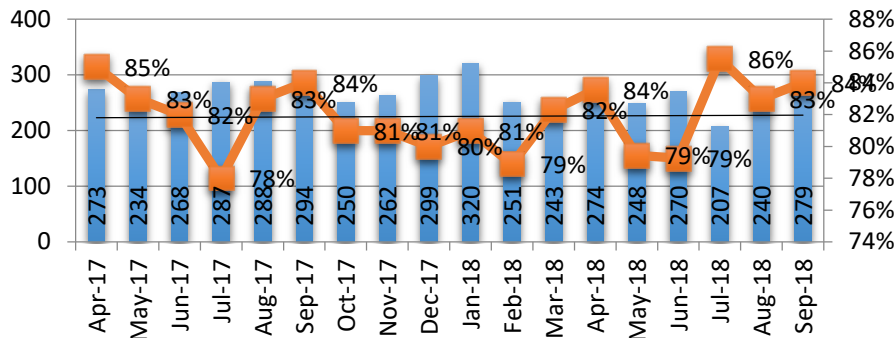
Cannabis

1	(MJ) Advertising: Violations	211
2	(MJ) Conduct violations: Criminal conduct: Permitting or engaging in criminal conduct.	74
3	(MJ) True party of interest violation.	64
4	(MJ) Failure to utilize and/or maintain traceability	61
5	(MJ) Licensee and/or employee open and/or consuming marijuana on a licensed premises.	35



Washington State Liquor and Cannabis Board

Alcohol Compliance Rate



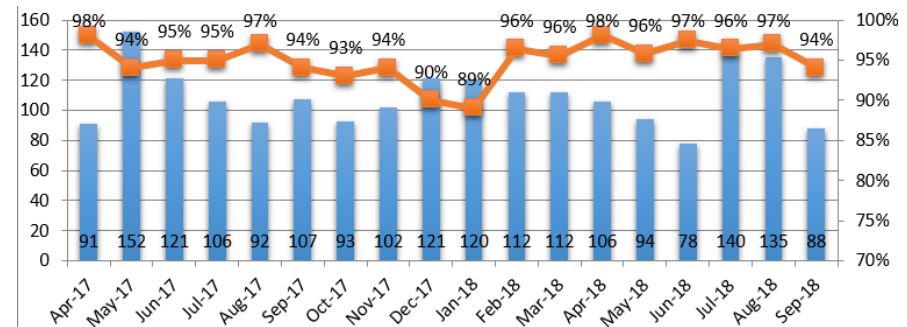
Top 5 MJ Violations Sept 2017 to Sept 2018

(MJ) Failure to utilize and/or maintain traceability	107
(MJ) Advertising: Violations	133
(MJ) Sale or service to minor	75
(MJ) Failure to maintain required security alarm and surveillance systems	72
(MJ) True party of interest violation	22*

Top 5 Alcohol Violations Sept 2017 to Sept 2018

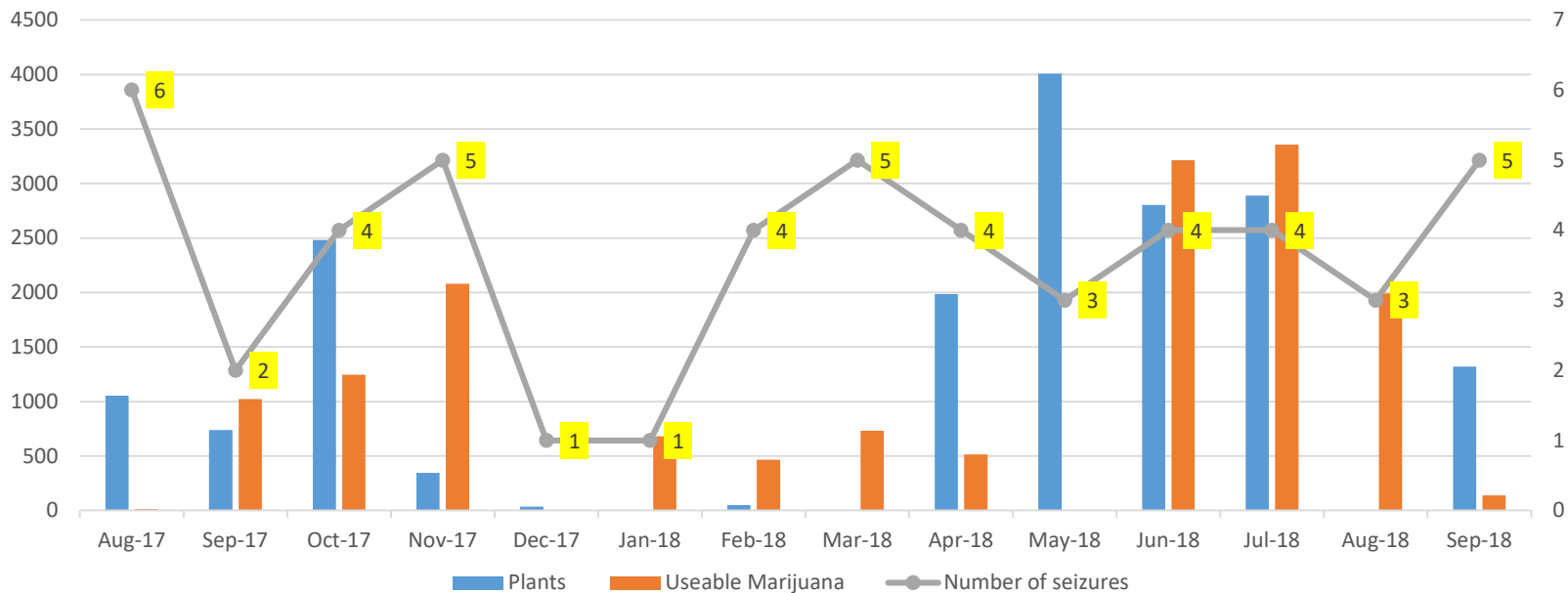
Violations Involving Minors: (Sale or Service of Alcohol to a Minor / Minor Frequenting)	644
Failure to File Tax/Shipment Report	140
Sale or Service to Apparently Intoxicated Person	114
Conduct Violations: (Criminal or Disorderly / Licensee or Employee Drinking or Intoxicated on Premises)	79
No Mandatory Alcohol Server Training Permit	47

MJ Compliance Rate





Marijuana Seizures



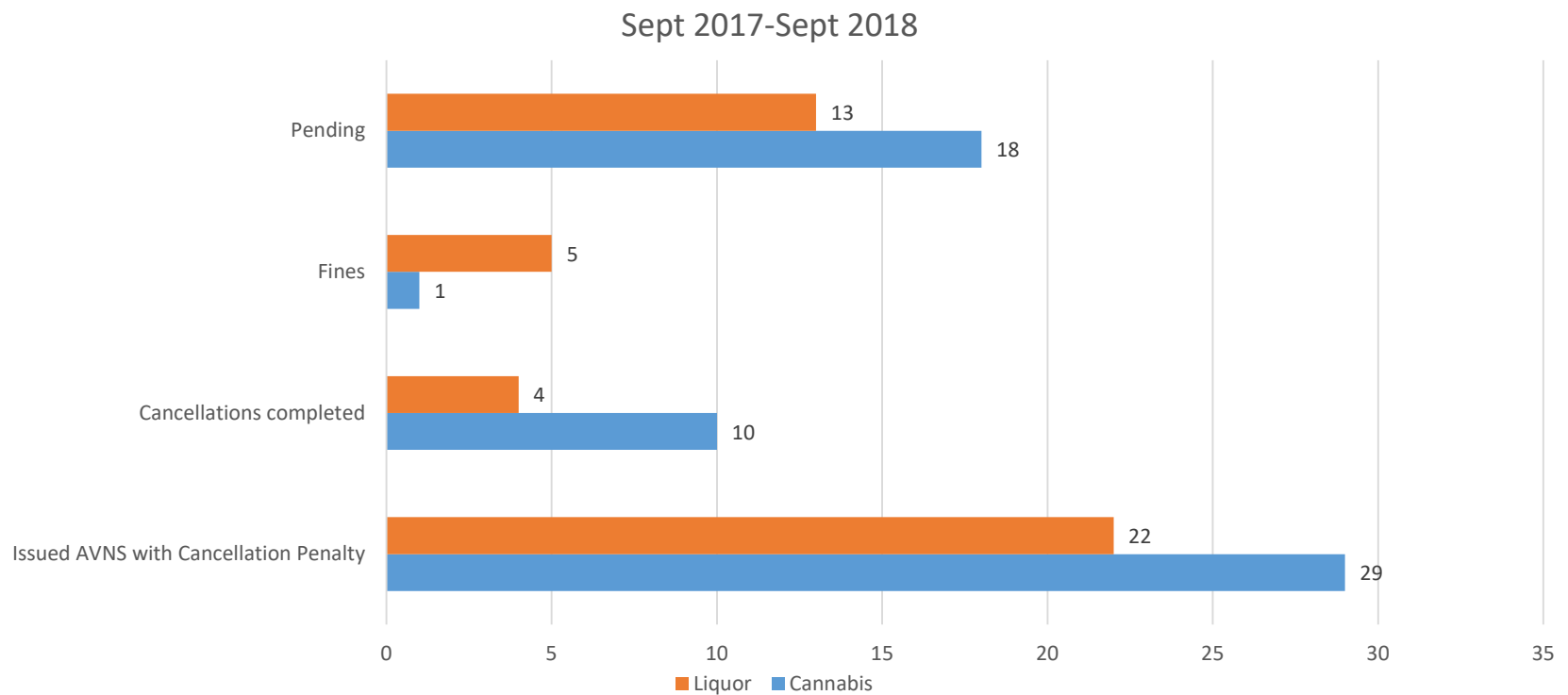
FY 2018 Totals

- 12,450 plants seized
- 18,957 lbs
- 43 seizures

Plants are measured by each, useable Marijuana is measured in lbs.



License Cancellations





Budget

- | | | |
|--|---------------------|----------------|
| • Total Agency Budget (2017-19) | \$97,449,995 | 365 FTE |
| • Total Enforcement Budget | \$36,360,238 | 169 FTE |
| • Liquor Enforcement | \$21,524,519 | 99 FTE |
| • Cannabis Enforcement | \$8,053,827 | 37 FTE |
| • Tobacco & Vapor Enforcement | \$6,781,892 | 33 FTE |
| • FY18 Supp. (included in total above) | \$782,000 | 6 FTE |
| • To fund additional Cannabis enforcement including 5 LEO's and 1 Cannabis Analyst | | |



Traceability Project Overview

- The LCB unsuccessfully attempted to secure a contract extension with BioTrack THC
 - Faced a “burning platform” with an Oct. 31, 2017 contract expiration
- In 2017 the agency rebid the traceability system, which was awarded to MJ Freeway, who hosts Leaf Data Systems
 - LCB signed a contract in mid-July 2017 to implement a new system that had to be in place by October 31, 2017
 - Typically, development takes 12-18 months for a project of this complexity
- The Leaf system was implemented February 1, 2018, and is scheduled to be fully implemented by Dec. 31, 2018
 - As it operates today, the system has known defects that are being addressed in future releases



Marijuana Traceability Status

Current Scope Status

- Scope remained relatively constant (six CRs approved totaling \$15,657)
- Release 1.35.6 successfully implemented August 27, 2018
- MJ Freeway missed the Nov. 5 deadline for the next major release (1.37.5)
 - The LCB is currently assessing liquidated damages
 - 97 percent of system developed. Testing quality of code remains.

Budget

- Changes from IT Pool Technology budget increased by \$528,467 to \$3,063,751

Timeline

- Changes from IT Pool Technology schedule increased by 6.7 months from 08/10/2018 to 02/28/2019
 - Release 1.1 was due on 11/05/2018
 - Release 1.2 is due 12/18/2018
 - Release 1.3 is due 12/31/2018
 - Request of MJ Freeway for updated project schedule



Steps Taken to Improve Project Health

- Gartner Report: Independent Verification and Validation report (Aug. 2017)
 - Identified areas going well and areas for improvement
 - MJ Freeway is working on recommendations from report
- Improved Vendor Management
 - Executive sponsor applying rigor to scope and budget
 - Negotiated six-month renewal instead of original annual renewal
 - Assessed liquidated damages and we are working on additional controls to ensure quality code
- Improved LCB Technical Project Management
 - Business subject management experts are full time on the project
 - LCB has enlisted Org. Change Mgt. (OCM) support
- Re-engaged Traceability Customer Advisory Group
 - Industry representatives meet with project leadership each month



Current Action on Pesticides

Current Rule-making to Require Pesticide Testing (CR 101 filed Aug. 2018)

- Due to:
 - Requests from the industry regarding testing requirements
 - Changes in testing requirements in other states have prompted further review of rules for potential adjustment
 - Additionally, the WSLCB has heard from the medical marijuana patient community that they would like to see additional product types or levels of potency that are not currently supported by the regulatory structure.
- Rules will:
 - Increase efficiencies in testing adult-use and compliant products,
 - Increase the availability of compliant products or products of a similar nature and quality of testing.



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Thank You